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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 06/19/09

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Plan A for Organ Transplant Law amendment goes to Upper House; time is running out

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Social security spending cut 13 trillion yen in 10 years: people suffer seriously from change for the worse

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- (1) Go into the roots of collusion among politicians, bureaucrats, and business

### 3) Prime Minister's Official Residence (Kantei)

Prime Minister's schedule, June 18

NIKKEI (Page 2) (Full)  
June 19, 2009

07:30 Met deputy chief cabinet secretaries Matsumoto and Asano at the Kantei.

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09:00 Attended an Upper House Foreign Affairs and Defense Committee meeting.

12:04 Returned to the Kantei.

13:02 Attended a Lower House plenary session.

13:40 Returned to the Kantei.

15:00 Attended an Upper House Health, Labor, and Welfare Committee meeting.

17:47 Met Chief Cabinet Secretary Kawamura at the Kantei.

18:18 Held talks with President Arroyo of the Philippines.

19:10 Attended a signing ceremony, followed by a joint press conference. Afterward, hosted a dinner party.

21:33 Met Matsumoto at his official residence

### 4) Defense Ministry hopeful about lifting F-22 export ban

YOMIURI (Page 4) (Full)  
June 19, 2009

With the U.S. Congress' agreement to include in the FY09 supplementary budget appropriations for researching the development of the export version of the advanced stealth fighter F-22, the Ministry of Defense (MOD) is closely watching if this will open the way for the introduction of the F-22, which is its top choice for the next generation fighter, codenamed FX.

Vice Minister Kohei Masuda stated at a news conference on June 18 that, "We are unsure if this latest move in the U.S. Congress will open the way for the export of the F-22," indicating that the ministry will make efforts at information gathering. Some MOD officials are hopeful, saying: "We now see signs leading to the lifting of the export ban." (senior MOD official)

### 5) Antipiracy bill to become law today

SANKEI (Page 5) (Abridged)  
June 19, 2009

The Diet, which is currently in an extended stage of its extraordinary session, will approve a set of three key legislative measures today, including an antipiracy bill, after they are voted down in a plenary sitting of its upper chamber and revoted on in the lower chamber. These important bills will now clear the Diet, with more than a month left until the Diet closes its current session on July 28. As it stands, the ruling and opposition parties will likely intensify their political posturing with an eye on an early snap election.

The Foreign Affairs and Defense Committee of the opposition-controlled House of Councillors met yesterday and took a vote on the antipiracy bill that will allow Japan to send out the Self-Defense Forces to deal with pirates in Somalia and other waters as needed. The bill was voted down with a majority of votes from the opposition bench, including the leading opposition Democratic Party of Japan (Minshuto).

The House of Councillors will call a plenary sitting this morning,

where the three legislative measures, including the antipiracy bill, are expected to be voted down with a majority of opposing votes. The ruling Liberal Democratic Party and its coalition partner, the New Komeito party, will override the House of Councillors' decision in a second vote with two-thirds or more of the votes for the bills according to constitutional provisions.

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In addition, the government will present a bill to the Diet next week for a special measures law intended to conduct cargo inspections for ships to and from North Korea. The ruling coalition is aiming for its early passage.

The antipiracy bill expands the scope of the Maritime Self-Defense Force's maritime security operations, which are currently limited to Japanese ships and Japan-linked ships, in order to make it possible for the MSDF to escort foreign ships as well against pirates in waters off Somalia. After the bill is enacted into law, the government plans to dispatch a backup squadron of MSDF destroyers to Somalia waters in late July under the new law to replace those currently deployed there. The MSDF will then embark on international contributions in cooperation with foreign naval fleets.

In the Gulf of Aden off Somalia, there have been 142 pirate attacks as of June 15, outpacing last year's 111 attacks. Under the current law, the MSDF is only allowed to escort Japanese ships and Japan-chartered ships. Its destroyers convoy 1-7 ships on each mission. Under the new law, they are expected to guard about 10 ships on each mission, including foreign ships.

#### 6) Main points from antipiracy bill

SANKEI (Page 5) (Abridged)  
June 19, 2009

##### Purpose

In the light of the importance of ensuring the safety of ships at sea for Japan's economic society and for its national life, and also in the light of the purport of the United Nations Convention on the Law of the Sea, the law stipulates matters needed to punish piracy and deal with piracy in an adequate and effective manner, whereby the law purports to maintain public safety at sea.

##### JCG actions against piracy

The Japan Coast Guard will implement necessary measures to deal with piracy. JCG personnel may use weapons as provided for in the Police Duty Execution Law's Article 7 (legitimate self-defense and emergency evacuation). In addition, JCG personnel may use weapons within the bounds of rational necessity where pirates refuse orders to stop and continue an act of piracy and where there are no other means to stop their ships.

##### SDF actions against piracy

The defense minister may order the Self-Defense Forces to conduct antipiracy operations with the prime minister's approval where there is a special need to deal with piracy. The defense minister will create an outline of actions, describing why antipiracy operations are necessary, where antipiracy operations will be conducted, on what scale antipiracy operations will be conducted, how long antipiracy operations will be conducted, and other important matters. The defense minister will submit it to the prime minister. The prime minister will approve antipiracy operations. When antipiracy operations are ended, the prime minister must report it to the Diet without delay. SDF personnel may use weapons as in the case of JCG personnel to deal with piracy.

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#### 7) Aso plans to submit ship inspection legislation to current Diet

YOMIURI (Page 2) (Abridged slightly)  
June 19, 2009

Prime Minister Taro Aso presented before the Upper House Foreign Affairs and Defense Committee yesterday his plan to submit to the Diet a bill allowing the country to inspect cargo of ships to and from North Korea in order to have it enacted in the current session. The Prime Minister said: "I think the law should be enacted speedily. An early enactment of the law will help us send an extremely clear message to North Korea."

Cargo inspections are based on UN Security Council Resolution 1874. The member countries are required to block exporting to and importing from North Korea materials leading to the development of weapons of mass destruction and to confiscate and dispose of them, if discovered. Because Japan has no legal grounds to conduct cargo inspections on occasions except for emergency situations and contingencies in areas surrounding Japan, the government is working on enacting a new law.

The ruling Liberal Democratic Party and the New Komeito held the first meeting yesterday of their project team on North Korea cargo inspections, chaired by LDP Security Research Commission Chairman Gen Nakatani and New Komeito Security Department chief Shigeki Sato, to kick off their work. The team confirmed a plan to produce a bill in outline next week.

The government intends to allow the Japan Coast Guard (JCG) to conduct ship inspections in Japan's territorial waters and the high seas near them. In yesterday's meeting, the view emerged mainly from the LDP that the legislation should include some room for inspections by the Maritime Self-Defense Force (MSDF).

Some think that an inclusion of such a provision would make Diet deliberations difficult due to objections from the opposition bloc, which is dismissive of any use of the SDF. There is also concern that if the Prime Minister still insists on the law's enactment in the current Diet session, deliberations might continue until nearly the July 28 end of the session, thereby tying up the Prime Minister's right to dissolve the House of Representatives.

8) North Korea ship inspections: Special measures law to allow Japan to confiscate and dispose of missile components even on high seas

NIKKEI (Page 2) (Abridged)  
June 19, 2009

The government yesterday outlined a special measures bill making it easier to inspect cargo on ships to and from North Korea. The aim is to give Japan legal grounds to conduct ship inspections that are included in the recent UN Security Council resolution to impose sanctions on North Korea. The Japan Coast Guard (JCG) is to play a main role in conducting inspections and is to cooperate with customhouses at seaports. Currently cargo inspections are allowed to be conducted only in Japanese territorial. The envisaged legislation is designed to expand the scope to include the high seas. The government plans to have a cabinet decision on the legislation to submit it to the Diet later this month.

The ruling bloc's ship-inspection project team met yesterday to

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receive an explanation from the government. In the session, the government explained that the JCG is totally capable of dealing with what is specified in the UN Security Council resolution. The enactment of the law will allow Japan to confiscate and dispose of missile components and other embargoed items when such are discovered. The government also underlined the need for the legislation to deal with cargo inspections not only at sea but also at seaports and airports.

Under existing legislation, Japan is allowed to inspect cargo only in its territorial waters. Further, the objects are limited to items that violate domestic laws, such as the Stimulant Drug Control Law and the Swords and Firearms Control Law. There was strong opinion that simply carrying missile-related parts that are subject to

sanctions under the UN Security Council resolution did not constitute a violation.

The special measures law is designed to expand the area of activities to include the high seas. The legislation also clearly stipulates that Japan is allowed to inspect ships carrying missile components and the like in waters near Japan and to confiscate and dispose of them.

The UN resolution calls for inspections at seaports and airports. The legislation incorporates a provision on ground inspections. Japan has already completely stopped exports and imports with North Korea. Items that have passed through customs can be suspended under the Foreign Exchange and Foreign Trade Control Law. The new law will allow customs and the JCG to inspect and confiscate items that have arrived in Japan without going through customs.

The focus in talks between the ruling and opposition parties would on who should play the main role in inspections. The government and ruling parties intend to allow the JCG to play the main role in deference to the opposition bloc which remains cautious about an expansion of activities by the Maritime Self-Defense Force (MSDF). The ruling parties are scheduled to hold a project team meeting next week to discuss the modalities of the involvement of the MSDF.

Meanwhile, Democratic Party of Japan Upper House Caucus Chairman Azuma Koshiishi indicated in a press conference that if the JCG is to play the main role, his party would allow an early enactment of the special measures legislation.

Comparison of current legislation and the special measures law on ship inspections

Existing legislation	Special measures law
Inspection High seas	Not allowed Allowed
Territorial waters	Allowed Allowed
Confiscation of illegal items High seas	Not allowed Allowed
Territorial waters	Not allowed ( ASTERISK ) Allowed

Exports and imports between Japan and North Korea can be suspended under the Foreign Exchange and Foreign Trade Control Law.

9) Vigorous discussion on re-listing as "terror sponsor," as Obama administration eyes stronger pressure on North Korea

YOMIURI (Page 7) (Full)  
June 19, 2009

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Keiichi Honma, Washington

The Obama administration of the United States is seriously considering re-designating North Korea as a state sponsor of terrorism. This is meant to be the U.S.' own sanction to apply stronger pressure on the DPRK following the UN Security Council's adoption of a sanctions resolution.

The countries currently on the list of state sponsors of terrorism are Iran, Syria, Sudan, and Cuba. North Korea went on the list in 1988 for its involvement in the Korean Airlines bombing in the previous year. It was removed from the list in October 2008 as a reward for announcing the resumption of the disablement of its nuclear facilities.

According to the State Department's definition, a state sponsor of terrorism is a "state that repeatedly gives support to international terrorist groups." Ballistic missile launches and nuclear tests cannot become the direct reason for re-listing.

A State Department source says that relations with the Islamic Shiite group Hezbollah in Lebanon, which has been designated by the U.S. as a terrorist organization, may constitute a strong ground for re-listing. North Korea reportedly has been providing weapons and training and engaging in personnel exchanges since the 1980s. During the Lebanese conflict of 2006, North Korea provided weapons through

Iran. There are reports that the Hezbollah's technology in digging underground tunnels was provided by North Korea.

Meanwhile, according to a British military magazine and other sources, the "Liberation Tigers of Tamil Eelam (LTTE)," a group on the brink of collapse as a result of the Sri Lankan government's mopping up operations, frequently smuggled machine guns, rifles, anti-tank rockets, and other weapons from the DPRK in 2006-2007. The LTTE is also a terrorist group on the U.S. list. It is also said that North Korea's suspected cooperation with Iran, a listed state sponsor of terrorism, in missile development may also be a basis for the DPRK's re-listing.

Crimes also constitute grounds for re-listing. The reasoning is that North Korea's income from printing counterfeit currencies and drug smuggling, both believed to be its means of earning foreign currency, is used for its development of nuclear and missile technologies, and some of these technologies are being transferred to Iran.

The possibility remains for charging North Korea with indirect support of ultra-leftist terrorist groups by harboring until now the former Red Army hijackers of the Yodo airliner in 1970. However, this will be difficult to do since the presence of the former Red Army members had been ignored when North Korea was taken off the list. The State Department's Counterterrorism Coordinator's Office is currently gathering evidence of supporting terrorist groups. The Secretary of State will make a judgment based on the evidence, and the President will make the final decision.

10) Organ transplant bill "Plan A" secures approval from 67 PERCENT of LDP members, 37 PERCENT of DPJ members

NIKKEI (Page 2) (Full)  
June 19, 2009

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A bill amending the Organ Transport Law (Plan A) cleared the Lower House on June 18 and was adopted by a majority vote. All parties other than the Japanese Communist Party (JCP) allowed their lawmakers to decide whether to support or vote against the bill. Many LDP lawmakers supported it, accounting for about 80 PERCENT of ballots in favor of the bill. Less than 20 PERCENT of lawmakers of the Democratic Party of Japan, which dominates the Upper House, supported it. The bill obtained support from 202 or 67 PERCENT of LDP lawmakers, 41 or 27 PERCENT of DPJ members, and 12 New Komeito lawmakers. All Social Democratic Party members voted against it. The number of lawmakers who either absented themselves or abstained from the vote (including the Speaker), came to 48.

Prime Minister Taro Aso opposed the bill, while Chief Cabinet Secretary Takeo Kawamura and LDP Secretary General Hiroyuki Hosoda approved it. Among 14 Lower House members who serve as cabinet ministers, nine supported it, while four opposed it. Finance Minister and State Minister for Financial Services, Economic and Fiscal Policy absented himself from the vote. In the DPJ, President Hatoyama voted against it, while Deputy President Ichiro Ozawa and Secretary General Katsuya Okada approved it. New Komeito head Akihiro Ota opposed it, while Secretary General Kazuo Kitagawa supported it. Support for Plan A appears to have spread due to many lawmakers taking the position that if all bills are scrapped, lawmakers could be called into question over their failure to act, as an LDP member put it.

11) DPJ President Hatoyama stops sending words of encouragement to younger brother

ASAHI (Page 4) (Full)  
June 19, 2009

Democratic Party of Japan (DPJ) President Yukio Hatoyama has decided to stop sending words of encouragement to former internal affairs and communications minister Kunio Hatoyama, his younger brother. Focusing on Kunio standing against the Aso administration in an attempt to shake it, some people believe that they are taking joint

steps even though they deny it. Even so, the relationship between Yukio, who eyes the premiership through the next general election, and Kunio, who is his elder brother's senior in the political world, seems to be complicated.

Yukio has said recently that the responsibility for the dispute over the reappointment of Japan Post Holdings President Nishikawa rests with Prime Minister Aso for his lack of leadership, ruling out his brother's responsibility. In the party head debate with Aso on June 17, too, DPJ head Hatoyama referred to the Japan Post issue and deliberately added: "I dare to take up the issue but it is not for the sake of my brother." An aide to him explained: "Once attention is focused on political reorganization, (the rumor of cooperation between the brothers) might result in putting a damper on the recent growing mode for a change of government."

The elder brother is a candidate to become next prime minister if his party wins the next general election. The younger brother served as internal affairs minister, justice minister, labor minister, and education minister, but it is now highly likely that the younger brother could be passed up by his elder brother, who has not assumed any portfolio.

The relationship between the two as politicians are complicated, as  
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an aide to Yukio remarked: "I think he has mixed feelings of respect and inferiority complex toward his younger brother."

The brothers call themselves an advocate of "fraternity spirit," a principle proposed by their grandfather, former prime minister Ichiro Hatoyama. But their father, former foreign minister Ichiro Hatoyama, designated the younger brother as his successor. Yukio entered the political world 10 years after his younger brother became a politician. Kunio serves his 10th term, while Yukio has been elected seven times.

The younger brother aimed to become a politician from his early days, but the elder brother hated to go into the political world. He wanted to be an academic, but while studying in the U.S., he suddenly changed his mind and decided to enter the political community. At that time, his father opposed his plan.

In 1996, the brothers set up the former Democratic Party of Japan (Minshuto), but later they were at loggerheads over such issues of accession by former Social Democratic Party members and treatment. Kunio left the party and returned to the Liberal Democratic Party.

Since they opened the Hatoyama fraternity private school in April of last year, the brothers have rapidly approached each other. Later last year, Yukio said: "I was proposed by my younger brother to reorganize the political climate," soliciting a speculation that the brothers might team up.

Bearing such circumstances in mind, many DPJ members have voiced concern that if the younger brother joins our party, confusion might be caused. Yukio denies such a possibility, remarking: "We will never call on him (to reorganize the political community)," but some still speculate that the idea of the brother teaming up under the slogan of "fraternity" could float again after the general election.

12) DPJ Hatoyama meets abductees' families for first time

ASAHI (Page 4) (Excerpt)  
June 19, 2009

Democratic Party of Japan (DPJ) President Hatoyama met representatives of the Association of the Families of Victims Kidnapped by North Korea, including President Shigeo Iizuka, at party headquarters for the first time yesterday. Iizuka asked Hatoyama to include in the party's manifesto for the next House of Representatives election, "The abduction issue is a high priority issue, and the government will assume the responsibility of rescuing all abduction victims, based on the premise that they are all alive;" and "complete sanctions will be imposed on North Korea."

Hatoyama replied: "I promise to specify the importance of the abduction issue in our manifesto."

13) Internal affairs minister sounds out Japan Post President Nishikawa on resignation in exchange for chairmanship

MAINICHI (Page 1) (Full)  
June 19, 2009

Internal Affairs and Communications Minister Tsutomu Sato unofficially felt Japan Post Holdings President Yoshifumi Nishikawa out about the possibility of assuming the chairmanship when they met

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on June 16, according to a senior government official yesterday. Nishikawa agreed to Sato's suggestion, but since they remained divided over who should be his successor, they decided to hold another meeting. Prime Minister Taro Aso instructed Sato when they met on June 16 to handle the issue. By offering the post of chairman to Nishikawa, Aso hopes to see Liberal Democratic Party lawmakers calling for Nishikawa's staying on, including former Prime Minister Junichiro Koizumi, understand his settlement measure.

President Nishikawa met Sato at the Internal Affairs and Communications Ministry to report on the company's response to a business improvement order issued by the ministry in connection with its attempt to sell Kampo no Yado inns. After Nishikawa's interim report, Sato and Nishikawa told the senior ministry members present the meeting to leave the room and held a tete-a-tete meeting. There, Sato said: "I want you to assume the chairmanship," in an attempt to have Nishikawa to resign as president. Sato then suggested he planned to appoint as his successor Japan Post Holdings Chairman Norio Kitamura, who came from Toyota Motor Co., or Japan Post Bank Chairman Koji Furukawa, who came from Mitsubishi Co.

But President Nishikawa suggested Japan Post Holdings Vice President Shokichi Takagi, who once served as Financial Services Agency chief, be appointed to be his successor. Sato responded with this remark: "We cannot allow an ex-bureaucrat to assume the post. The condition is to choose someone from the private sector."

Former internal affairs minister Kunio Hatoyama had insisted that President Nishikawa should resign to take responsibility for a series of scandals involving Japan Post." But Nishikawa declined it, and Aso dismissed Hatoyama on June 12.

Seeing public support ratings of the Aso cabinet nosediving in public opinion surveys conducted following the dismissal of Hatoyama by press companies this past weekend, Sato judged it impossible for the party to win the next House of Representatives election under the current situation. He appears to have worked out a plan to persuade Nishikawa to step down in exchange for the chairmanship.

14) LDP factions make special requests of Prime Minister Aso to make decision on timing of Diet dissolution, shuffle cabinet

TOKYO SHIMBUN (Page 2) (Full)  
June 19, 2009

In general meetings of the Liberal Democratic Party's (LDP) factions, members made specific requests of Prime Minister Taro Aso regarding the timing for dissolving the House of Representatives and calling a general election.

Sadakazu Tanigaki, a senior member of the Koga faction, urged Aso to ascertain the good timing of Lower House dissolution, paying less attention to the low support rates for his cabinet. He said: "The Prime Minister should not act recklessly." He then called for party unity, saying: "If we do not unite, we will not be respected by our enemy."

Yuji Tsushima, chair of an LDP faction, called for a cabinet shuffle, with an eye on Kaoru Yosano's concurrently serving as finance minister, state minister for financial services, and state minister for economic and fiscal policy. He said: "More messages will be sent if there are three ministers."

In the general meeting of the Machimura faction, as well, there was a view that the practice should be discontinued of having one person serve in two posts or more. Nobutaka Machimura, chair of the faction, reportedly asked Aso to consider shuffling the cabinet.

Taku Yamasaki, who heads a faction, sought to contain moves that would lead to turmoil in the LDP, with former Internal Affairs and Communications Minister in mind. He said: "It is time for us to hold on. If we cause a fuss to form a new party before the Lower House election, our party will fail."

15) DPJ vigorously engaged in campaigning for Shizuoka gubernatorial election, with eye on fourth-straight victory in local elections

TOKYO SHIMBUN (Page 2) (Full)  
June 19, 2009

By Takayoshi Goto

The official campaign for the Shizuoka gubernatorial election (July 5) was kicked off yesterday. Four candidates are running in the race. The main opposition Democratic Party of Japan (DPJ) intends to send party leaders to Shizuoka to support a candidate it backs, aiming at the fourth-straight victory in local elections. DPJ President Yukio Hatoyama decided to back the candidate although Deputy President Ichiro Ozawa recommended the other candidate.

Mentioning the third straight victory in the Saitama, Nagoya, and Chiba mayoral elections, Hatoyama emphasized at the party's headquarters:

"We have steadily won (the elections). We are now engaged in the campaigning for the Shizuoka gubernatorial election. I am determined to secure victory at any cost this time, as well."

In picking the candidate the DPJ supports, there were gaps in views between Hatoyama and Ozawa, who is in charge of election strategy. Ozawa, who tried to run Toru Unno, 60, a former House of Councillors member, as a unified candidate, was reluctant to back Heita Kawakatsu, 60, former president of Shizuoka University of Art and Culture, whom the DPJ Shizuoka prefectural chapter had recommended. However, Hatoyama made a final decision to back Kawakatsu.

Hatoyama did not want to spoil his party's chance to win the election, following the three-straight victories in the major cities. If the DPJ wins the Shizuoka gubernatorial race and the Tokyo Metropolitan Assembly election on July 12, such will provide momentum for the party to win the next House of Representatives election.

Therefore, the DPJ plans to send party leaders to Shizuoka to support (Kawakatsu's campaign). Deputy President Naoto Kan will visit there on June 21 and Secretary General Katsuya Okada, on June 22. The party is arranging a schedule for Hatoyama to go there.

For the reason that the DPJ is vigorously engaged in the campaign, there is concern that a defeat in the election will put a damper on growing party strength.

Meanwhile, the ruling Liberal Democratic Party (LDP) gives total support for Yukiko Sakamoto, 60, a former Upper House member, to

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prevent the DPJ from winning the race. The Japanese Communist Party (JCP) endorses Sadayoshi Hirano, 59, a JCP Shizuoka prefectural committee member.

16) China treating domestic-made products preferentially; Japan, EU launch survey, alarmed about protectionist move

YOMIURI (Page 1) (Full)

June 19, 2009

Akira Teramura, Beijing

It came to light on June 18 that the Chinese government sent notifications calling for preferential purchases of Chinese-made products for government procurement as a means to stimulate the economy. China has strongly accused the U.S. for its Buy American campaign. However, it was found that China has been treating domestic products preferentially, a practice that could be called a Buy Chinese campaign. Many countries are bound to oppose this policy of China. The Japanese government has immediately started a survey out of concern about China's protectionist move.

The notification calling for preferential purchases of Chinese-made products was sent to local governments and the local branches of the central government in late May.

It stipulates how bidding should be conducted when implementing the stimulus package worth 4 trillion yuan (approximately 56 trillion yen) that the Chinese government adopted last fall. It calls for the selection of Chinese-made products with the exception of cases in which Chinese-made products cannot be procured or purchased under reasonable conditions.

Regarding this notification, the Chinese government said that its aim is to secure a fair competitive environment for overseas and domestic products, and it is strongly opposed to trade protectionism.

However, many countries view this Chinese policy as a protectionist move. The European Union (EU) is increasingly alarmed about the situation. The European Commission (EC) has launched a survey to determine whether this Chinese policy infringes on the World Trade Organization's (WTO) rules.

17) Government premature in declaring that the economy has bottomed out?

TOKYO SHIMBUN (Page 9) (Abridged slightly)  
June 19, 2009

With the Japanese economy showing some rosy signs, centered on industrial production and exports, the government and the Bank of Japan have revised their economic assessments upward. However, differences in their views are visible. For instance, while the government has effectively declared that the economy has bottomed out, Bank of Japan (BOJ) Governor Masaaki Shirakawa stopped short of making definite remarks, simply saying, "The definition of the situation varies among individuals." The BOJ's cautious stance toward the U.S. economy and domestic demand, which hold the key to full-fledged recovery, appears to be behind the gap.

Trend of domestic demand, U.S. long-term interest rates do not

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permit any optimism

"Our country's economy is beginning to stop deteriorating after significantly worsening." The Bank of Japan released its economic assessment after a policy-setting meeting on June 16. It revised upward the previous month's assessment that the economy is continuing to deteriorate. However, it adopted an unusual wording for "after significantly worsening" in order to refer to the past situation.

Behind the adoption of this wording is its recognition of the present situation - although export and industrial production indexes have taken an upward turn, the levels are still low due to a sharp decline since last fall. The prevailing view on the pickup of exports and industrial output is that it is a natural consequence of major production cuts and inventory adjustments. Governor Shirakawa indicated a cautious stance at a press conference, "The point of the future trends of the economy is how final demand will move after inventory adjustments have made progress."

One disturbing factor for the future of the economy is the trend of the U.S. economy. Chief Economist Hideo Kumano of the Dai-Ichi Life Research Institute pointed out, "I am worried that long-term interest rates are rising (while bond prices are falling) before the economy fully turns around." He explained: "A further increase in the burden of interest payment in the debt-ridden U.S. economy would delay a pickup in the housing market and personal consumption. As a result, the recovery of the Japanese economy, which relies on exports, will also be delayed."

On the domestic front, employment-related indexes, such as the ratio of available jobs to job seekers and the jobless rate, are continuing to deteriorate. If companies cut summer bonuses extensively, it will put a dent in economic growth.

Concerning the difference in the assessment of the economy from the government, which has declared that the economy has bottomed out, a BOJ executive revealed his real feeling: "They want to stress the results of the economic stimulus packages. To what extent we can fall in step with them is an agonizing decision to make."

ZUMWALT